

MACEDONIA LOCAL GOVERNMENT PROGRAM ASSESSMENT FINAL REPORT

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EXECUTIVE SUMMARY

The purpose of this Report is to assess the capability of local government in Macedonia and help USAID/Macedonia develop a long-term framework for its local government program. It was prepared in the context of the decentralization process that is currently underway.

Important contextual factors include the Ohrid agreement which triggered renewed emphasis on decentralization, upcoming elections in October, 2004, the imminent passage of a law that will alter and consolidate municipal boundaries, the dominance of party politics, strong donor involvement, an increasingly competent municipal association, a January 1, 2005 deadline to begin the decentralization process and a history of strong decentralized government. Critical issues include adequacy of local funding, how to distribute revenue in an equitable manner and in way that will address the problems of poorer communities, the pace of decentralization and the stringency of standards of competence that will be established prior to the devolution of specific authorities.

Decentralization is to be implemented through passage of numerous primary and secondary statutes during the next 14 months. The process is expected to be complex, confusing and perhaps chaotic. . *The timing and the content of the Law on Local Government Finance will be the single biggest indicator of the GOM attitude toward implementation of decentralization.*

Principle findings include: the advantage of a tradition of decentralization; a strong legal basis for citizen involvement in government; a sound indication that communities appear willing to contribute financially to the public good; the risk that public facilities will be co-opted by commercial entities; inadequate funding for municipalities; the risk of variation in budget levels as a consequence of political maneuvering; the danger that territorial consolidation will disenfranchise minority groups; the immensely complex and confusing legislative process; the tendency of GOM officials to procrastinate; the absence of a strong constituency for decentralization; the relatively high leadership quality of the current cadre of mayors and senior municipal officials; and the emergence of a vocal and competent group of municipal based community groups. *The latent grassroots capability to engender citizen participation in municipal life has significant potential and should be an integral part of any future USAID municipal development strategy.*

The Assessment found that municipal capacity varied among municipalities. Mayors tended to be competent and energetic, support staff tended to be inadequately trained, poorly motivated, and inadequately paid. In general, municipal leaders are eager for decentralization and believe they will be able to provide better services as a result but uncertain whether they will be given adequate authority. *The municipalities need broad managerial capacity to set priorities, manage complex systems, organize and motivate teams and allocate resources in an optimal manner.* Although decentralization will retain the same people in the same jobs, reporting relationships and the responsibility structure for job advancement, job security and salary increases will change. In establishing the new structure, it will be important to: clearly vest full supervisory authority in the mayor; strengthen the financial management function; and support the preparation of plans that will identify and respond to human resource weaknesses.

The LGRP project has strengthened several important municipal associations. This work needs to continue for the next few years with an emphasis on building and strengthening membership, diversifying revenue sources in order to ensure long run financial stability. ZELS in particular has become a positive factor in guiding and shaping a coherent approach to decentralization. Its' advocacy efforts appear to be reasonably effective, policy committees are developing coherent policy positions in important areas and internal management is being addressed.

The Assessment Team noted that resources under the CSHI capital projects program could be linked to support decentralization and that the fiscal reform activity could place more emphasis on local tax and revenue systems.

The Assessment includes a discussion of overall program strategy. Findings include good progress toward achieving results, the validity of the current results framework, the extensive presence of USAID activity throughout the country, the fact that USAID's current three-prong strategy of working at the ministerial (policy) level, the municipal (service implementation) level and at the citizen (information/awareness) level is necessary and appropriate.

The Assessment stresses the importance of continued flexibility, emerging opportunities for activity collaboration among USAID funded activities and the critical importance of sustaining technical assistance to the ministries in preparation for decentralization, with a gradual shift to emphasize local needs as decentralization takes place. Additional findings related to strategy include a sporadic pattern of municipal strengths and weaknesses that complicate program design, the fact that uncertainty among local government officials is itself an impediment, the lack of coherent guidance from ministry officials, the importance of designing templates and models, the critical need for donor coordination and the importance of building a professional media to give more coverage to local issues.

The Assessment concludes that the Mission should not undertake a major effort to refashion the local government strategic framework at this time. USAID should continue to emphasize, maintenance of policy reform at the top with capacity building at the local level, gradually shift emphasis to local priorities and work to identify ways to increase local revenues and build a strong citizen base.

Three primary conclusions are: the immediate success of the effort to decentralize will depend primarily on the actions, attitudes and initiative of the central government; the long term success of decentralization will depend on the ability of local government to generate a sustained citizen demand for responsive and cost effective services; it is important for USAID to maintain a strong program and a high profile.

Recommendations include:

- ▶ Focus the Program on Decentralization.
 - ▶ Retain Strategic Framework Until After 2004 Elections.
 - ▶ Retain Current Measurement Plan.
 - ▶ Structure the Program Around Three Sequential Phases.
- Phase I: Planning. Planning, preparing, designing and testing: from now until January 1, 2005.

- Phase II: Implementing. Devolution of authority through passage of laws and implementing regulations and cascading of authority and responsibility: from January 1, 2005 to approximately December 31, 2006.
- Phase III: Sustaining. Consolidating capacity and building citizen involvement: from January 1, 2007 through December 31, 2008.
- ▶ Concentrate on three thematic priorities.
 - Shift gradually to a demand driven program.
 - Build sustainable civil society.
 - Develop civil service professionalism.
- ▶ USAID in general should:
 - Adopt a preference for speed in preference to perfection.
 - Support the preference for speed through convincing analysis.
 - Integrate a growing emphasis on civil society.
 - Sustain a seamless core of operations during the transition period.
- ▶ USAID specifically should:
 - Provide policy support to Ministries in drafting laws and regulations.
 - Design a Municipal Advisor technical assistance program.
 - Design Quick Response Teams to function during decentralization.
 - Design a Mayoral Institute Leadership Program.
 - Sponsor analytical studies on revenue adequacy.
 - Accelerate expansion of pilot projects.
 - Develop models and templates.
 - Develop model municipal administrative structures.
 - Develop financial and accountability strategies for Public Enterprise.
 - Strengthen donor coordination through the establishment of a small supporting secretariat.
 - Develop a citizen participation strategy that focuses on citizens.
 - Continue to provide institutional support to ZELS and AFO and initiate modest support for MAKKOM.
 - Make a pro-active effort to more directly link capital fund projects to decentralization.
 - Make a pro-active effort to more directly link NGO and civil society grant programs to support for decentralization and local government reform. .

MACEDONIA LOCAL GOVERNMENT PROGRAM ASSESSMENT

FINAL REPORT

PURPOSE OF THE ASSESSMENT

The purpose of this assessment is to assist USAID-Macedonia develop a framework for its municipal development programs under IR 2.3 More effective and accountable local government for the period beginning in October 2004. This assessment is prepared in the context of the decentralization process that is currently underway in Macedonia. In preparing the assessment, USAID-Macedonia has requested that the work of CSHI and its general approach to Strategic Objective 2.0 Democracy and Governance be considered. The mission has also asked how the work of the Fiscal Reform program can contribute to efforts to support decentralization. In discussions, the USAID mission team has requested that the assessment team consider the role of civil society in making decentralization effective and sustainable.

The overarching theme in considering the future of municipal development programs in Macedonia is decentralization. There has been on-going political discussion and debate about this topic and the GOM is in the process of formulating and implementing a plan to decentralize several competencies to municipalities. This situation is in flux and the pace and extent of decentralizing competencies and the revenue sources to adequately fund them is likely to unfold during the next year.

LEGAL AND POLICY CONTEXT FOR LOCAL GOVERNMENT IN MACEDONIA

The overarching environment for local government in Macedonia is determined by the country's political context. A recent report on political conditions characterized the political environment as a party oligopoly in which two major coalitions battle to obtain the fruits of political power, jobs and resources, rather than about alternative visions of the future.

The dominance of party politics is a factor to consider in any assessment of government reform in Macedonia, in part because local elected officials obtain ballot positions based on decisions by the political parties and hence are to some extent captives of their national political parties. Nevertheless, there are two articulate and effective constituencies for local government reform in Macedonia: the donor community and ZELS. While some civil society organizations are eagerly anticipating decentralization, it is not apparent that they have an ability to bring any effective political pressure on the GOM for decentralization. The donor community views decentralization through two prisms: 1) as an implementing mechanism for the FWA executed in 2001 and 2) as a method of enhancing quality of public services and creating a more democratic environment. The GOM is in the process of adopting these views, at least nominally, by adopting a decentralization plan and working on specific implementation laws. While discussion among the donor community frequently characterizes decentralization as an FWA implementation mechanism, domestic political actors favoring decentralization tend to avoid this linkage because, to a significant portion of the population, implementation of the FWA is seen as means to cantonize and/or federalize the country. In short, the FWA link provides momentum for decentralization, and has accelerated GOM efforts in this direction, but it is not a substitute for a domestic constituency, which will be important to both short and long-term success.

Decentralization of significant service delivery is not a new phenomenon in Macedonia. In the pre-independence period, competencies of municipal governments were quite broad and included sports and culture, health, significant education responsibilities, economic development, and the issuance of urban planning and building permits. To finance these competencies municipalities had relatively extensive sources of revenue including the ability to tax revenues of enterprises, certain transactions, and set fees for the delivery of utility services and permits¹.

In addition, there appears to have been a long history of imposing local taxes by referendum for specific capital projects. This device has been used recently by the municipality of Karvardarci. This municipality has levied a 2% tax on personal income earned in the municipality to fund a wide range of capital improvements. The total levy is seventy million Denars and the proceeds will be used for a wide range of local capital improvements. The 2% levy will be in effect for five years. Public support for the projects and the tax were generated by a variety of means including neighborhood meetings and public hearings. The PE Citizens Advisory Boards, originally fostered by USAID/LGRP actively participated in the public education campaign, according to LGRP's most recent quarterly report².

However, these services were provided within the context of a one party federal state (Yugoslavia) with the range of local decisions circumscribed by the uni-party political system.

The civil society and multi-party local democracy elements of the current vision of decentralized service delivery are the chief differentiators of the current vision from the pre-independence system. The result of the decentralization underway is expected to be enhanced services, delivered locally in a political environment characterized by accountability, citizen participation in local government decision making and democratic participation in multi party local elections.

As a way to build momentum toward decentralization USAID/LGRP supported the expert drafting of two laws shifting competencies to the municipalities: One transferred sports facilities, the other transferred responsibility for building permits. While these laws were prepared and requested by ZELS in mid 2002 no progress has occurred. Transfer of these competencies is now on the GOM schedule for 2004. The transfer of the building permit responsibility was supported at a high political level in the donor community. The Special Representative of the EU committed to send a letter of strong support to the GOM, however EU staff informed LGRP directly that the letter was never sent and the draft was returned.

The USAID/LGRP/ZELS concept had been to secure the decentralization of competencies that would be easy to administer at the municipal level, because they had been performed at that level pre-independence and it did not involve transfer of significant money or a large number of people. While the GOM has changed since the mid 2002, *this example provides evidence of the political difficulties of transferring minor competencies which municipalities have abundant capability to manage.* Power does not pass easily when the costs of the transfer and the people who will bear the costs are easily identifiable, but the benefits (to the public) are diffuse. This type of sticking point remains a fact of life in Macedonia.

¹ See Appendix 8-1. Paper by Professor Ilja Todorovsky.

² Ibid

Presently the GOM has developed a decentralization plan that in general terms calls for passage of major decentralization laws by the end of 2003. Of these, the most significant are the laws concerning the number of municipalities in Macedonia and municipal finance. It is envisioned that the present 123 municipalities will be combined into a smaller number and that there will be special provisions for the capital region that is now comprised of approximately half a dozen municipalities. The Law on Local Government Finance is in active development as this assessment is being finalized. Participants in the process of drafting the Law include IMF, USAID, the Ministry of Finance and ZELS. The main questions are 1) whether municipalities will be given adequate revenue sources (either subventions from the center or local revenue sources) to enable them to support the competencies that will be decentralized and 2) what the phase-in period will be.

The Assessment Team understands that a major impetus for reducing the number of municipalities originated in the IMF's concern about total public employment in Macedonia and whether the smaller municipalities would be efficient service delivery entities. Our sense is that the exercise of redrawing boundaries is politically time consuming and provides a method to slow down decentralization, add confusion to the fall 2004 municipal elections, and will not introduce efficiencies in any significant degree.

The Assessment Team suggests this issue be revisited and a strategy that leaves municipalities intact, but organizes service delivery through joint administration arrangements be carefully examined to determine if the IMF's legitimate fiscal policy objectives can be met without boundary adjustments. The small, soon to be obliterated municipalities have already gone through two electoral cycles and voted for Mayors and Councils. They have a political identity now, which they will lose. Abolishing municipalities without a concurring referendum is inconsistent with the European Charter of Local Self-Government to which Macedonia is a signatory.

A proper Law on Local Government Finance is the *sine qua non* for effective decentralization. A law that provides adequate and dependable revenues and reasonable flexibility in local resource allocation will set the stage for a relatively rapid decentralization process. The reverse is also true.

The Law on Local Government (2002) embodies a major GOM policy decision on decentralization. This law (and previous versions, as well) specified that municipalities would have many competencies. The current law provides for the following local government competencies: Urban and Rural Planning, Protection of the Environment, Communal Activities, Local Economic Development, Culture, Sport and Recreation, Social Welfare and Child Protection, Education, Health Care, Emergency Preparedness, and Firefighting. The law provides a *vision* of a decentralized governmental system. To date, most efforts to develop function specific decentralization laws have been focused on Urban Planning, Communal Activities, Culture and Education as well as on the crucial issue of municipal finance. The LLSG is a shell that describes a vision of local government and requires specific implementing laws for each competency. However, it does layout a comprehensive vision of a vibrant local government sector.

Currently specific laws transferring these competencies are in various stages of development and ZELS has a specific policy committee for most of these competencies working to advocate for passage of an effective law. Staff largely funded by USAID supports these policy committees. ZELS policy committees include Finance, Urban Planning, Sports and Culture, Education, Health, Territorial Division, and Communal Issues. Laws transferring simple competencies like building permitting and inspection and sports facilities have been prepared during mid 2002 by ZELS but have languished in the legislative process.

USAID, IMF and other donors are collaborating with the GOM on development of this Law and will need to continue in this role until the law is adopted. Of all of the decentralization activities taking place in Macedonia, the passage of a Law on Local Finance that is designed to enable and foster the decentralization process is the most important. *The timing and the content of the Law on Local Government Finance will be the single biggest indicator of the GOM attitude toward implementation of decentralization.*

In addition, it is expected that the Law on Municipal Finance and related laws will define the borrowing powers of municipalities as well as their ability to collateralize debt and sell municipal property. Borrowing powers are expected to be extremely limited until municipalities reach financial maturity, a situation that will require successful decentralization as well as macro economic growth. There is discussion of a Municipal Investment Fund, a national government entity, from which municipalities might borrow.

In general, drafts of the Law on LGF do not grant significant new revenue sources to local governments. Rather, the emphasis has been on developing distribution formulae that provide reasonable amounts of revenue from national government revenues to support the competencies and equalize, to some degree, the financial resources of municipalities. In a small state with significant variations in local economies, this makes sense from both an efficiency and equity viewpoint. But it would be helpful, in addition, to permit broadening local tax bases and granting the *discretion* to municipalities to use them. This would enhance local choice. The principal focus of ZELS, under the able leadership of the Mayor of Veles, has been on the subvention scheme(s) that will finance decentralized competencies.

Even with a significant reduction in the number, most municipalities in Macedonia will be of modest size. Most will fall in the range of 10,000 to 60,000 in population. The municipality of Skopje, if a unified entity is created, will be significantly larger. As more complex competencies are decentralized the need for comprehensive improvement management systems will become evident, but the scale of the municipalities will mitigate the difficulty of addressing this issue.

Municipal Elections will occur in fall 2004; based on experience, there will be significant turnover in Mayors (not withstanding the LTD). This means USAID will lose some of its sunken investment in training and relationship building with municipal leaders, some of whom play leadership roles in ZELS. To mitigate this, USAID will need strategies to establish relationships with newly elected municipal leaders. One approach might be to offer training specifically tailored to newly elected Mayors and Councilors. *This will be important as local officials elected in fall 2004 will be responsible for implementing decentralized competencies.*

LEGAL AND POLICY CONTEXT: FINDINGS

1. ***A Tradition of decentralized government.*** In short, many of the competencies now being contemplated for decentralization were previously municipal competencies and municipalities had a much broader range of revenue sources that they have at present. Gaining a more complete understanding of the pre-independence system of local government has the potential to inform the current decentralization effort of donors in general and the GOM. Gaining an understanding of changes in income and wealth, a factor that significantly influences the political context is also important. In 1990, GDP/capita was USD 2235, in 2002, it was USD 1835. This is an 18% decline. While this does not account for grey or black market economic activity, it is evident that for many people the quality of life is lower than in the pre-independence period.
2. ***Willingness to make self-contributions.*** The Kavardaci example is significant. It illustrates the latent potential for local citizens to make choices about levels of service and level of taxation for which they will pay. Frequently during Assessment Team's visits to municipalities, officials pointed out that some municipal property taken over by the state during centralization was funded by this "self contribution" method. This demonstrates that an informed citizenry can make local government decisions and that there is a relatively recent history of this kind of decision making in Macedonia.
3. ***Conversion of public goods to private goods.*** One type of facility commonly funded by the "self-contribution" method is sports and culture facilities. These were nationalized after independence and are scheduled to be returned in the decentralization process. However, it is reported that in contemplation of this, the GOM has granted long-term concessions to operate the revenue generating aspects of many of these facilities to private interests. This will limit flexibility and potentially municipal revenue from these facilities once they are returned to municipalities. This is an illustration of the conversion of public goods to private goods that will limit local discretion in managing these facilities and an action that undermines public confidence in the political system.
4. ***Uncertain subventions.*** There is significant risk, at this point in time, that the revenue sharing approach currently contemplated will be subject to yearly variation, be opaque, and insufficient revenues for the competencies. During the period of this assessment, serious discussions were continuing in an effort to address these issues and the outcome of the discussions was uncertain.
5. ***Strong legal basis for citizen participation.*** Articles 25, 26, 27, 28 of LLSG (see Appendix 2) provide a broad framework for Citizen Participation in local government that would cut across all functional sectors. These laws appear to provide an ample basis for bona fide citizen participation in Local Government *if local civil society is aware of them and knows how utilize them.*
6. ***The uncertainty of shifting municipal boundaries.*** While the Law on Territorial Division and Law on the City of Skopje are important in determining the scale and complexity of municipal jurisdictions, they are outside the scope of current USAID programmatic efforts. Most observers expect these boundary issues to be resolved in the near future. The prevalent view of most seasoned observers is that political expediency

will be the prime criteria and that this set of decisions will be highly controversial. It should be noted that the FWA requires that municipal boundaries be redrawn after completion of the census in 2001. It also states that boundary revision process include international participation.

7. ***Consolidation will increase the risk that populations of small municipalities will be underserved*** as political advocacy for their needs will be reduced or eliminated. Designing a political mechanism to ensure small localities have an adequate voice in local resource allocation decisions will be needed.
8. ***Legislative process is cloudy.*** The legislative decentralization process is complex, confusing and less than transparent. To a significant extent this reflects an inherent predilection for a rule-bound approach to political change. However, the murkiness of the process can also trigger suspicions and allegations of political manipulation and malfeasance which in turn can complicate and impede progress toward consensus.⁴
9. ***Performance gap.*** In a related vein, there is a gap between the espoused GOM commitment to implementing the FWA and decentralization and its behavior in taking the necessary steps to make decentralization a reality. The Assessment Team believes that this gap is a reflection of real tensions within the political system and the absence of a broad based public consensus for decentralization. Political events over the next several months, specifically passage of the LLGF and LTD will provide an indication of the degree to which this gap will narrow in the near term. The current condition gives donors mixed signals, and exacerbates the problems in planning effective programs and in donor coordination. However, it strengthens the argument for donor coordination: 1) at the high political level where pressure can be focused on the GOM and 2) at the program level where the practical needs to implement decentralized competencies can be addressed.
10. ***Civil Society and decentralization.*** The Assessment Team was impressed with the level and energy of local citizen participation and the growing institutional fabric of competent civil society organizations. Although the role of civil society was not a central thematic focus of the SOW, the Assessment Team believes that these community based voluntary organizations represent a very significant resource that can be relied on to both accelerate and deepen the quality of decentralization. Whether as adjunct service providers, advocates for reform or sources of citizen education, local voluntary groups can be of considerable value in making responsive local government a living reality. Although the

⁴ During the Assessment Team's stay, the GOM withheld a draft of the Law on Local Finance from ZELS, the institution representing the parts of the society that would be most affected. The draft was not a confidential document; it was widely shared in the donor community. This approach is not atypical, but it is inconsistent with the recent and much heralded ZELS MOU with the GOM and the consultation provisions of the LLSG. The pattern reflects the party-based center-oriented style of political decision making in Macedonia. In background interviews with senior local government officials, a significant number expressed the concern that this type of behavior signals an underlying absence of a commitment to meaningful decentralization. Several voiced the view that "lip service" was being paid to decentralization in order to satisfy donor interests but that substantive change was unlikely. Regardless of the validity of this perception, it is a view that leads to cynicism, a lack of energy and a slow-down in momentum.

Team met with only a limited number of local civic associations, it was clear that these were effectively tapping into a latent strain of active voluntarism that appears to permeate Macedonian society, despite the periodic skepticism and mistrust sometimes expressed about the motives of NGOs. To an important degree, USAID and several other donors have been instrumental in catalyzing this re-emergence of voluntarism. In general the seeds of a broad based revival of civil society appear to have been planted. What is now needed is a more focused effort to build competence and organizational sustainability in discreet sectoral or competence areas, in particular those areas that will support and enhance the quality and rapidity of local government decentralization. *The latent grassroots capability to engender citizen participation in municipal life has significant potential and should be an integral part of any future USAID municipal development strategy.* To date, USAID's Civil Society efforts and those of others have not been a significant integral part of the municipal development program, rather they have mostly run in parallel. As decentralization occurs a more integrated approach is warranted.

MUNICIPAL CAPACITY

Municipal Capacity varies but the overall operational management capacity range is low to modest. In part this is because they are small organizations, as the Kocani example below shows. Municipal leaders, while eager for decentralization and generally certain of the ability to provide better services at the local level are uncertain about whether decentralization will provide municipalities with the full authority needed to manage the competencies or whether essential management prerogatives like personnel management and budget discretion will continue to be held at the ministry level. Operationally the same people now employed by Ministries will be providing services, but under the supervision of the Mayor. *The management capacity that municipalities need and currently do not possess are those essential crosscutting capabilities that allow Mayors and Councils to make decisions to shift resources from one sector to another to align resources with the priorities of the community.* Capable budget analysis, performance analysis, human resource management, capital planning and related cross cutting skills/capabilities are not embedded in Macedonian municipalities. The need for these capabilities will emerge as competencies are transferred. It is important to note that in general, staff trained in these broad general management skills is not found in most municipalities. Further there are few examples of staff in municipal administration who possess these skills or who can advocate for the development of the critical capacities described above.

Municipalities are very small organizations with very few competencies. Typically, a medium sized municipality has few employees, as is the case in Kocani, a municipality with a Total Staff of 15. This municipality is a regional economic center with a population of approximately thirty thousand. Based on discussions with people familiar with the Macedonian municipal context Kocani is typical in its municipal structure and competencies. It is used in this report to illustrate the current condition and likely condition of the municipality post decentralization. It performs four main functions:

- ▶ Land use planning for the city under the authority of the City Architect (a function shared and controlled with the Ministry of Transportation)
- ▶ Provider of certain communal services such street lights, street cleaning and miscellaneous public services

- ▶ Provider of road and traffic services such as road maintenance, traffic lights, parking, etc.
- ▶ Facilitator and broker of citizen conflicts with other citizens or elements of the governmental structure

Like most other municipalities Kocani has a Public Enterprise that is an independent entity owned and controlled by the municipality that provides public works services: water, sewer, refuse collection and disposal, cemetery maintenance, etc. The exact scope of the PE varies somewhat from among municipalities. In general, PEs are designed to be self-financing from fees paid by citizens for their services and by the municipality for maintaining municipal property. In fact, most PEs are under funded due to a very high level of non-paying customers. PEs typically have a 15 member Board, five of these are employees of the PE and the other 10 are usually a mix of councilors and citizens. There is also a control board of citizens appointed by the City Council that performs an audit function.

MUNICIPAL CAPACITY: FINDINGS

1. ***Public Enterprises Face Severe Problems.*** These are well documented. PEs suffer from inadequate revenue as the result of a large number of non-payers, a legal environment that limits remedies, a requirement that VAT of 18% be paid when bills are rendered, not when they are paid, and a court system that does not facilitate resolution of outstanding debts. Public Enterprises provide services that are already decentralized, and operate in legal environment that works against their ability to provide services. *If these conditions characterize competencies that are already decentralized, what will the conditions be for newly decentralized competencies?* The Public Enterprise situation and the GOM inability to solve systemic problems in this sector is illustrative of the difficulty, to date, for ensuring that decentralized competencies providing direct services to citizens are supported by rational laws that foster effective service delivery.
2. ***Significant Scale of Organizational Change.*** The scale of organizational change in municipalities will be large. To illustrate the range of change in municipal administration required by decentralization two organizational charts are presented. The first is of the municipality of Kocani now; the second is illustrative of how the city might be organized after decentralization. (See Appendix 9.)

Table 1 shows how simple the organizational structure of Kocani is at the present time. It is important to note the small number of employees and the very limited number of direct services provided to citizens. It is also important to note that the Mayor and his staff perform a wide range of political functions that utilize the leadership and convening power of the Mayor including local economic development, local dispute resolution, and representation of the municipalities' interests with Ministries delivering services in the municipality. In short, the Mayor and his staff perform many functions that are not on the Table of Organization because they are inherent in the political leadership role of the Mayor.

In Table 2 the expanded competencies of the municipality are shown. In addition, to the added competencies a stronger financial function is included as is the position of

Management Advisor. These two additional components represent the two new capabilities needed to effectively manage a much more highly complex public service delivery system. The financial management capability is essential to manage, not only more money, but a more complex revenue and expenditure system. In the financial area municipalities need to effectively control more funds and perform the kind of on-going financial planning that can anticipate fluctuations in revenue and in service demand and informs management decisions that adjust to changing financial circumstances. Table 2 shows a “management advisor” in charge of day-to-day operations and as advocate for improving the local public administration infrastructure. This concept is discussed in the next finding.

3. ***Municipal Management Capacity Building.*** In the Macedonian municipal context, there is no professional municipal management cadre. Typically, the Mayor may have a Chef du Cabinet as his top aide. This is usually a well-educated person in whom the Mayor has confidence both personally and politically, but who does not necessarily have a public administration background or a career interest in municipal public administration. While municipalities remain limited in their competencies and modest in size this system is adequate, but, as the municipalities become more complex and need to build effective budgeting, human resource and planning capacity, the need for professional management will become more acute. Developing the concept of professionalizing municipal management and introducing it will smooth the decentralization process and accelerate a shift toward a more performance oriented government service delivery system. *A key in developing this concept will be the introduction of a “management advisor” into the municipal organizational structure.* The term “management advisor” is used because the way this position is developed will have to fit the Macedonian context and the exact technique may vary from municipality to municipality. The assessment team is deliberately avoiding the term city manager, because it denotes a transfer of Mayoral executive power to an appointed official, an approach the team deems inappropriate in the current Macedonian context. While the Assessment Team envisions the “management advisor” as the day-to-day supervisor of municipal operations, the real responsibility would be to function as a management change agent. The “management advisor” would develop and sustain all of the management systems needed to engender a service oriented high performance organization. *One way to think about this role is to consider the “management advisor” as an agent championing local public administration reform and capacity building.* A “management advisor” in each municipality of significance would provide a “client” for technical assistance in each municipality who has a long-term interest in developing municipal capacity.
4. ***The Same People in the Same Jobs.*** In the overwhelming majority of cases, in the decentralization process, *work will be carried out by the same people who perform it now for Ministries, in the same facilities.* The main difference will be that they will report to the Mayor rather than a Minister. For many functions and the people who perform them, this will be a return to the pre-independence arrangement. A major issue that will determine whether the promised benefits of decentralization are realized is supervision. If Mayors have the full authority to supervise, reward, discipline and reassign staffs that are transferred then the stage for enhanced service delivery will be set. If this is not the case, achieving the full benefits of decentralization will suffer significant delay.

5. ***Municipal Financial Management Needs Strengthening.*** Currently most municipalities of significant size have one or two municipal finance officers. On average, people in these roles are trained as accountants and bookkeepers. Because the municipalities have limited responsibilities, this level of financial management capability has been adequate to date. With full-fledged decentralization of competencies and increased revenue and spending responsibility, financial management will become much more complex and demanding and increased municipal capacity will be required. In a number of cases, these skills will be provided by personnel now working for the Ministry of Finance that are transferred to local government. However, the increase in the number of management units will inevitably require an increase in the cadre of individuals trained in local government finance. Dialog with key officials at MOF would be useful to determine its current thinking on the skills and capacities its staff will need, if it is to continue to perform this function under decentralization.
6. ***Human Resources Deficiencies.*** The assessment team could not identify any plan for ensuring that human resources are adequate for carrying out additional competencies. Neither Ministries nor municipalities have such plans, in some measure because of the following reasons: 1) the underlying assumption is that the same people will be performing the same work, and 2) decentralization is not “real” yet.
7. ***Mechanisms for Citizen Participation.*** Municipalities are using a variety of mechanisms for Citizen Participation. Surveys, public hearings, community meetings, citizen participation on technical committees developing LED plans and similar techniques are all in use as are vehicles like the PE Citizen Advisory Boards. Municipalities appear to be beginning to use the services of local NGO’s. In Prelip, the Assessment team found examples of a broad survey of citizen perceptions of neighborhood needs being carried out by a local NGO in a very professional manner. Local NGO and NGO support organizations seem very well attuned to the possibilities for higher citizen impact on resource allocation decisions in the post decentralization period.
8. ***GOM Role Is Essential.*** More than anything else, what municipalities need for decentralization to proceed is a GOM that is committed, on the political level, to making decentralization work. A clear and vigorous policy and policy implementation program would catalyze municipal officials, local civil society, and donors to take action to build capacity in partnership with line Ministries. Without the GOM as a real partner, a comprehensive approach to building municipal capacity is impossible. Thus, in the current situation donors and municipalities will have to be opportunistic and invest in piecemeal capacity building efforts.

MUNICIPAL ASSOCIATIONS

ZELS

Over the life of the project, LGRP has made a large investment in ZELS. While ZELS has a relatively long history, until recently it was considered largely a social organization for Mayors. Currently it has a governance structure that includes Mayors and City Councilors, a media strategy that presents a unified municipal position on political issues that affect decentralization, a relatively large staff, and nine policy committees that mirror each of the competencies that are to be decentralized. It has an MOU with the GOM that establishes a policy consultation

mechanism and has access to technical expertise from municipal staff. The 2002 LGRP Evaluation report characterized ZELS as the only bona fide domestic constituency for decentralization (This remains the case.) and recommended USAID invest heavily in supporting it, because of the importance of decentralization to US policy objectives in Macedonia. Accordingly, ZELS is currently heavily subsidized by USAID/LGRP and continues to receive a very high level of expert TA from the project. It is important to note that there are no ethnic or regional splits on key policy issues and in public presentation forums, there are always Albanian as well as Macedonian Mayors as spokesmen.

Over the five year time period covered in this assessment ZELS will need to address several serious issues including sustainability, staff development, and strengthening its influence with the GOM.

MUNICIPAL ASSOCIATIONS: FINDINGS

1. ***Maintaining Independence.*** One major risk faced by ZELS is the potential for being co-opted, preempted, or unduly influenced by GOM. There are three factors at play: 1) the party loyalties of Mayors and the penalties for taking positions independent of their parties; 2) a pattern of the GOM selecting its own choices to sit on important policy bodies rather than permitting ZELS to name a representative; and 3) the affect of European municipal association models. In discussions with European donors, there were frequent comments along the following lines: that ZELS should not write legislation; it should only comment on the GOM legislation; its job is to cooperate with the government; it should be funded by the GOM with a small percentage of subventions to municipalities, etc. The capable professionals interviewed draw on western European experience where municipalities are integrated into a governmental system that is prosperous and stable and the method of political decision-making is characterized by consultation and cooperation. These are conditions that are different from those existing in the US or in Macedonia. The European model might be suitable after decentralization is implemented and mature and Macedonia is approaching EU accession, but it is not appropriate now.
2. ***ZELS Revenue.*** ZELS has difficulty in collecting dues from its members. It is estimated that only about 50% of members pay their dues. Salaries are relatively low and much of the staff is of high quality, but tends to be young and inexperienced. One interesting phenomena is that there are no penalties for being a free rider; non-dues paying members receive the same services and voting rights as those who pay. As the organization matures, it will need to address this question, which will be mitigated if most small municipalities are consolidated with larger neighbors as municipal boundaries are adjusted.
3. ***ZELS effectiveness.*** ZELS has become a positive factor in guiding and shaping a coherent approach to decentralization and as a conduit for communication between central and local authorities. ZELS has made significant progress over the past year and a half. Its advocacy efforts appear to be reasonably effective, their nine policy committees are developing coherent policy positions in critically important areas and internal management is being addressed. The real test of its effectiveness will come as primary and secondary decentralization laws are enacted in the forthcoming months.

4. ***ZELS needs to refine its Strategic Plan.*** And give more support to its policy committees, and adopt a practice of putting decisions on policy matters in writing, which is not currently the case. Written policies will allow staff to be more active advocates/analysts between meetings. Currently they have a reactive posture, and much staff support is confined to logistics. While the 2002 Evaluation report recommended that ZELS policy committees be staffed with personnel who are professional peers of top Ministry professionals, what has developed is that administrative staffs with limited experience are assigned part-time to support the committees. During the assessment, the LGRP STTA working with ZELS addressed this issue in a policy workshop for policy committee chairs and staff. New job descriptions and policy formulation processes were developed, and may be implemented in the near future.
5. ***ZELS needs to improve its policy planning capacity.*** The internal administration of ZELS is not managed by a person familiar with the substantive policy issues faced by municipalities. While this adequately covers day-to-day administration of the organization, there is no full time staff member who can lead or guide policy analysis and policy advocacy work. Work that requires a high level of skill and confidence and the willingness to deal professionally with complex issues that directly address the distribution of political power and influence in the country (local/central). Policy planning should be managed by an Executive Director with these skills or a Deputy Director with complete responsibility for this portfolio.
6. ***ZELS long term sustainability.*** The phase out of the LGRP program which is scheduled to terminate in September 2004, the unknown impact of the October 2004 municipal elections and the continued and simultaneous need to upgrade systems, build staff capacity and identify a continuing flow of high quality leadership combine to threaten the sustainability of this still fragile but critically important institution. As USAID's local government strategy unfolds, it will be essential to give high priority to permanently rooting ZELS and associations like it in the Macedonian governmental/civil society landscape.

AFO

To their great credit, the finance officers of the municipalities, public enterprises and Ministry of Finance staff serving as municipal finance officers have developed an effective professional organization with a modest level of assistance from USAID. While the general level of financial management professional skill in municipalities is not at a high level, the very significant interest by members in this organization and its programs demonstrates that there is a cadre of municipal finance officials interested in leading a professional development organization and actively participating in upgrading the financial management systems of municipalities. This organization, the Association of Finance Officers of Local Governments recently completed a comprehensive survey of a representative sample of municipalities.⁵ In general, respondents were Mayors or their designees. A few illustrative findings from the report, in the rough English

⁵ Study on Determining the Degree of Managing the Financial Capacities and Degree of Own Revenue I Local Self Government Unit (LSGU), May 2003. Funded by USAID through LGRP.

translation provided to the Assessment Team, are below. A complete copy of the Report conclusions is included as Appendix 1.

- ▶ LSGU in future pay more attention to the insufficient and inadequate personnel in order to be able to successfully respond to the competencies that will be transferred from central to local level.
- ▶ ...in the period to come when the implementation of the budget planning will start there is the need for the development role of the budget, and longer term programs should be taken into consideration.
- ▶ 86% of the surveyed LSGU have not established an internal auditor...There is the need for all LSGU in the future to accept the challenge of establishing the above mentioned audit system.
- ▶ The inability to have the LSGU employees have equal treatment with respect to their salaries with the employees at the government bodies de-motivates them, makes them feel discriminated against.

The general tone of the report and its conclusions represent a positive sign that a significant number of municipal officials are keenly aware of their need to increase financial management capability.

The AFO report together with the recently completed UNDP assessment of municipal finance management capacity and need can form an initial basis for developing a comprehensive financial management capacity building strategy. *Any comprehensive strategy will require the active participation of the Ministry of Finance.*

MAKKOM

MAKKOM is the acronym for the Professional Association of Public Services Enterprises. MAKKOM needs substantial institutional development, but can be a key to improving the delivery of public services. It has been viewed as a potential vehicle to provide professional development and technical assistance to the component of local government that presently provides direct service to citizens. Progress has been slow in developing this association in part because it has been registered as a for profit entity and thus ineligible for donor assistance, partly due to leadership issues, and partly due to the very poor condition of the organization. Dues have a high arrearage, a reflection of the poor condition of PEs and partly a reflection of very low service to members.

This organization needs very substantial institutional development. It has been receiving TA from LGRP⁶ and is in the process of reregistering as an NGO and making organizational changes that reflect the advice of LGRP. If these developments are completed (all indications are that this will be the case), modest institutional support provided, and new leadership emerges then it is likely that USAID and other donors will have an institutional vehicle to develop the skills and

⁶ LGRP has recently completed a comprehensive needs assessment for this organization.

capacity of these very important public service delivery organizations that while under municipal control are largely independent and off the municipalities' balance sheet.

EMERGING MUNICIPAL ASSOCIATIONS

As decentralization proceeds a need for more professional associations will emerge. Urbanism, Building Inspection and Fire Service and Management Advisors are example. Effort should be placed in developing such organizations as a means of raising professional standards and providing technical assistance. AFO is a good model of how this type can develop.

RELATIONSHIP OF CSHI AND FISCAL PROGRAM

USAID has two programs that have the potential to significantly support the mission's municipal reform program: the Community Self-Help Initiative and the Fiscal Reform program.

CSHI is established as a vehicle to fund small infrastructure projects that are selected by communities (not municipalities). This project was evaluated recently and the assessment team became familiar with the project by interviewing staff and reviewing documents. The CSHI evaluation report noted that while the project is targeted to communities, in a very large number of instances Mayors played key organizational and advocacy roles and that a significant portion of projects supported public infrastructure e.g. water service, primary school rehabilitation, etc. The evaluation report urged closer linkages with LGRP.

The Fiscal Reform program provides a wide range of technical assistance in the field of tax policy and tax administration. Its main focus is on the national level. However, there was a close working and consultative relationship with LGRP during the preparation of the Property Tax pilot and assessment of the potential for an ad valorem property tax in Macedonia.

CSHI: FINDINGS

1. ***Target CSHI Resources.*** The CSHI program resources can be linked to support decentralization by targeting its capital resources to support improvements in public infrastructure that are transferred to municipalities. This could be done in a manner that is consistent with the current local priority selection process.
2. ***Shift Some Fiscal Reform Resources.*** The technical resources of the Fiscal Reform project can be shifted to place more emphasis on tax and revenue systems (local and national) that support municipalities. Local taxation is not a function that is separate and distinct from national tax policy as municipalities have no inherent right to levy taxes. That is, municipal taxing powers are essentially delegated from the center and closely regulated. Fiscal Reform project resources could contribute to shaping the World Bank Cadastre project so it has the potential to support a property tax administration system that can develop into a market based ad valorem system that captures all parcels of land. It could also support technical evaluation and roll out of pilot property tax projects as well as the development of legislation that positively affects local own-source revenues and national shared taxes.

THE VALIDITY OF THE CURRENT USAID STRATEGY

USAID's program in Macedonia is organized under three strategic objectives, one of which (Strategic Objective 2.0) is focused on building more legitimate democratic institutions. This particular Strategic Objective is supported by four logical intermediary results including increased citizen participation in decision making, improved adherence to the rule of law, increased confidence in government institutions and more effective, responsive and accountable local government (intermediate objective 2.3).

At the time that the Strategic Plan was prepared, prospects for significant and swift decentralization were not encouraging. With the 2001 civil disturbances and the consequent Ohrid Agreement, this situation changed dramatically and meaningful decentralization became an imperative to the maintenance of the peace process as well as having its own intrinsic merit as a necessary component of democratic reform.

In the 2001 Plan it was envisioned that the Local Government Reform Program would have four related sub-goals: to improve relations with citizens; to strengthen municipal associations; to improve the management of services; and importantly to increase local government responsibility and augment financial resources. Of the four objectives, this latter goal (increased responsibility) is the one that is most directly related to the decentralization process that is currently underway.

In view of the significant political changes and the high priority that is given to decentralization, the Mission quite appropriately wishes to review this strategic structure and implicit priority goals and determine whether the road map is still valid and whether the current local government assistance strategy and program are contributing to the achievement of desired results.

As of this writing, the numerous component pieces of the decentralization process are formative and in a transition state. To an outside observer, the process may seem more chaotic and unpredictable than will ultimately be the case. The perception of complexity is enhanced by a proclivity to approach decentralization through the passage of legislation, the uncertainty regarding the content of the imminent law on Territorial Division and the impact of the October 2004 Municipal elections. The views on decentralization vary widely depending on whether one speaks to a donor, a mayor, one of the many implementing contractors, an NGO or municipal association. The additional findings set forth below attempt to look at decentralization both from the point of view of National or Ministerial policy and from the perspective of local implementation. Both sets of perspectives are based on interviews with stakeholders from both groups.

STRATEGY: FINDINGS

1. ***Validity of Results Framework.*** At least for medium term (i.e. the next two years), the goals and objectives set forth under IR 2.3 in the FY 2001 Strategic Plan provide a sufficiently coherent structure to guide and monitor the local government program. The interlocking components of citizen engagement, better management of services, strengthening of supporting associations and increased local authority constitute a logical conceptual structure with the coherence and flexibility that are needed during this transition period. The only shortcoming in the current framework is that it may not accord adequate importance to facilitating the decentralization process which constitutes a good deal of the work in which both the Mission and the LGRP project are engaged. On balance, the Assessment Team concludes that the current Results Structure should be maintained with incorporation of broad guidance regarding the value of collaboration between activities, as discussed below.
2. ***General Progress toward Achieving Results.*** Although Macedonia is a small country, the Assessment Team was impressed with the depth and breadth of US involvement in local government reform at all levels of government and geographically, throughout the country. In virtually all of the municipalities visited by the Team, there was at least one and usually two or more USAID activities directly or indirectly related to improving local government and enhancing the likelihood that decentralization would be effective. USAID is viewed as the principal leader in local government reform and as a very significant source of funding. This extensive presence in and of itself does not guarantee results but it does demonstrate the significant leverage that the program has and the potential capability to intervene constructively during the decentralization process.

In the final analysis, Macedonia itself will determine the pace and durability of local government reform. Overall, the Assessment Team was very positive regarding progress that has been made in establishing the network of structures and capabilities available to guide the process when it is initiated. More particularly:

- ▶ **The three-prong approach should continue.** USAID's current three-prong strategy of working at the ministerial (policy) level, the municipal (service implementation) level and at the citizen (information/awareness) level is necessary and appropriate at this stage of the decentralization process. A previous evaluation has validated the relevance and high impact of the LGRP activity and the Assessment Team concurs with the core themes of that analysis.
- ▶ **Emphasis on flexibility and adaptability is necessary.** USAID's current emphasis on flexibility and adaptability are fully compatible with the uncertain legislative and political context in which decentralization is occurring. However, as the situation stabilizes as a consequence of legislative action, it will be possible to fashion a more staged and sequential approach based on a higher level of predictability and clear policy decisions by the GOM.
- ▶ **Opportunities for activity collaboration should be emphasized.** There appears to be constructive collaboration among the various implementing organizations. It is clear that the Mission has given this a high priority and the level of voluntary

cooperation is impressive. However, the Assessment Team believes that there are additional opportunities to capitalize on potential synergies once the decentralization process has begun in order to maintain momentum, show early positive results and develop a supportive and informed citizen base.

3. *Training and technical assistance.* The provision of technical advice to the ministries by USAID is of immediate importance because the statutes that will shape decentralization are currently in a formative state. It is essential that this type of focused technical support be continued for the next 14 months and perhaps beyond. To the extent feasible, advisors need to be placed inside the ministries and operate at a senior policy level. The technical assistance will be doubly beneficial if working or advisory groups can be established with participants from a representative group of municipalities since this will insure a local perspective while at the same time beginning to inform local officials about upcoming legislative changes.⁷

Over time, the training and TA emphasis should shift down to reflect local needs. In particular, local municipalities will need general management expertise to help them pull together, coordinate, prioritize and direct the new authorities and responsibilities that they will have to deal with. While narrow technical training in particular functional areas may be necessary on a sporadic basis, the critical bottleneck will be a limited ability to view municipal operations from a broadly systemic perspective, to set strategic goals, establish clear targets, develop work plans, monitor results and provide appropriate corrective feed-back.

4. *Sporadic pattern of municipal strengths and weaknesses.* In conducting this Assessment, the Team attempted to find common functional problem areas that a USAID program could focus on and respond to. While the Team was able to identify cross-cutting needs such as the importance of upgrading municipal management capability through the insertion of professional skilled management advisors, it was difficult to pin point areas of deficiency that apply across the board. While some generalizations are possible, most of the difficulties that will arise during the decentralization process will be case by case and will represent anomalous situations. Thus, during the decentralization process itself, i.e. during the actual cascading of new authorities and responsibilities, there will be a large variety of diverse challenges that will run the gamut from simple systems failures to morale problems, to difficulties in asserting management control over former ministry staff. To deal with this diversity of issues, the Assessment Team noted the value of establishing in advance an interdisciplinary quick response capability that could resolve problems as they arose and advise municipalities during the actual stages of decentralization so that the difficulties do not become imbedded.

5. *Uncertainty and confusion regarding the decentralization process.* Local uncertainty with regard to the decentralization process is itself an impediment to the devolution of authority to municipalities. Municipal leaders interviewed for this assessment were universally unclear regarding the decentralization process and concerned with respect to

⁷ Realistically, the "insertion" of senior technical advisors in a line Ministry must be done with considerable political dexterity. The Team does understand that LGRP has been establishing strong relationships with the Ministries of Finance and Education. Similar relationships with other line ministries would be helpful. Although the Team did not broach this concept with other donors or Ministries, it did not sense that it would generate opposition.

their ability to manage the process in a manner that would avoid a significant interruption in the flow of services. Many complained about the complex thicket of laws and regulations that they would have to interpret, confusion regarding the pace and content of decentralization and concern regarding the quality and motivation of ministry staff that would be assigned to their jurisdiction. In general, municipal leaders had received little, if any, guidance from ministry officials regarding the timing and phasing of decentralization. Virtually all voiced concern regarding the adequacy of resources that would be made available and the imposition from above of restrictions on their freedom to explore new revenue raising opportunities. In summary, municipal leaders were almost unanimous in their call for clarity, guidance and coherence in the decentralization process and virtually all felt that they could not plan ahead or develop coherent strategies until the component parts of decentralization were laid out.⁸

USAID and other donors are paying appropriate and needed attention to the provision of technical training within competence areas. While this is needed and appropriate, there is a critical intermediate step that involves explaining how the process will work, how sequencing will be managed, how certification will be provided and how personnel will be transferred. The dilemma is that even if this is relatively clear at the center, it is obscure at the municipal level. A persistent risk during the decentralization process is that the local perspective, a perspective that can inform the process, will be ignored.

Although many of these concerns will be addressed during the next 14 months through the enactment of primary and secondary statutes and through the provision of workshops and training programs, there is a critically important need to give the mayoral leadership hands-on assistance and to arm them with detailed knowledge of the constraints and opportunities they will face and how to benefit from the changing bureaucratic landscape. It will be particularly important to give new mayors the confidence and the tactical tools to apply the powers that they will receive in a proactive and creative manner and to help them build plans that are tailored to the unique needs of their communities.

6. ***Importance of templates, models, analogies.*** In view of the leadership changes that will result from the Fall 2004 local elections, the administrative problems associated with the re-structuring of territorial boundaries and the simultaneous devolution of central authorities through roughly 50 different statutes, ***mayors and municipal officials have a reasonable basis for a high degree of uncertainty regarding the nature and structure of the local government terrain that they will inhabit in two years.*** For this reason, the Assessment Team believes that all would benefit from a clearer conceptual model of how effective local government can function, how it should operate, the standards of performance, and the role of civic organizations in local governance. Most importantly the special Macedonian characteristics that insure that the model is adopted need to be identified and incorporated into the effort to make decentralization work. The LGRP program is in the process of developing alternative models and different structures that could be adapted to different situations. It is important that this work continues and that municipal officials be direct participants in this work.

⁸ ZELS Policy Committees, organized on a functional basis, are well suited to served as the forum for State-Local dialog, particularly if they are properly staffed.

7. ***Importance of developing synergies.*** There are significant opportunities to develop synergies between the Mission's explicit decentralization activities and other Mission funded programs. In the broadest sense, virtually the entire USAID program is linked in some fashion to the progress, effectiveness and durability of decentralization efforts whether in the area of court reform, strengthening civil society or stimulation of economic development. The Assessment Team found three opportunities where the linkage is particularly compelling including the Media Strengthening Program, the Strengthening of Civil Society, and capital projects funded under the Community Self Help Initiative. While the Mission has wisely and successfully encouraged a high degree of voluntary cooperation between these activities and the LGRP program, an explicit injunction to explore joint initiatives together with a waiver that would permit pooled funding could provide a valuable stimulus.
8. ***The challenge of donor coordination.*** Overall, the donors' local government programs to date have been largely "top down" and supply driven with an appropriate emphasis on building local government civil servant skills, strengthening financial and budget capacities, determining the optimal phasing for decentralization. Donor efforts as a whole appear to be fairly comprehensive both topically and geographically. There appears to be adequate funding, reasonably good coordination, and a growing capacity among the donor community to target un-attended areas of importance.

An important component of USAID's approach to decentralization has been the provision of coordinating support to the donor community. Because of the variety of interventions, the inevitability of slightly different approaches, the difficulty inherent in working at both the local and central levels and the uncertain legislative picture, the desirability of coordination is indisputable. To date, the Mission's efforts at coordination have been limited to the preparation of information regarding existing activities and periodic status reports and discussions on the progress of decentralization. While the preparation of informational matrices is valuable, more can be done to integrate donor efforts around central themes and key policy issues that will need to be addressed during the decentralization process. A viable alternative technique for augmenting information coordination would be to establish a small secretariat that would function for a limited period during the most difficult and intense phase of decentralization. The down-side of this approach is that it would be difficult to give this unit significant authority to do more than cajole and encourage.⁹

9. ***Capitalizing on growing media professionalism.*** The quality and professionalism of the local media will be important to the durability of decentralization. A well-trained and independent media is important both as a source of basic public information and as a mechanism to encourage improvement in government services while spotlighting abuses when they occur. On the other hand, the ability to understand the media and to use it constructively to obtain a public policy objective is a component part of leadership that needs to be nurtured. There is a delicate line between building media professionalism and

⁹ As is frequently the case, some donors have traditional reservations regarding the desirability of US leadership and these sensitivities need to be taken into account in any effort to deepen or expand the USAID-led coordination effort.

steering the media in a particular direction through provision of financial support. Attempts to coordinate the media program with municipal reform and decentralization needs to be sensitive to this distinction. At the same time, the provision of background information to the media, the development of a small grants program to stimulate media coverage in a particular area and media workshops on issues that will surface as decentralization occurs could be helpful in gently encouraging the media to devote greater attention to this subject.

COMMENTS ON ACHIEVEMENT OF SPECIFIC SO 2.3 OBJECTIVES

A. INCREASED MUNICIPAL GOVERNMENT RESPONSIBILITY

- ▶ Significant transfer of authority to local government has not yet occurred but the probability that meaningful delegation will occur has greatly improved. Since recent elections and encouraged to a significant degree by US diplomatic and Mission leadership, the momentum for change has accelerated. The Government has passed the law on Local Government and passage of statutes on Territorial Boundary and Municipal Finance are imminent. Just as important, at the local level there appears to be growing realization that decentralization will occur and that when it occurs there is the potential for a very significant shift in responsibility. At the same time, local authorities are deeply concerned that decentralization will involve devolution of responsibilities without concurrent authority and/or resources. This can happen through the passage of laws that create un-funded mandates or through the creation of performance expectations that exceed local capacity. The consequence is ambiguity with respect to the decentralization process, exacerbated by uncertainty with respect to the results of the 2004 elections.
- ▶ As discussed in the previous Section, there is a considerable range in the capacity of local government to handle the responsibilities that will be placed on their shoulders. USAID and other donors have responded to perceived management deficiencies by developing workshops and training programs designed to enhance capacity. However, until the pace of decentralization is clear and the complex issue of financial discretion has been resolved, it will be very difficult to design an integrated strategic approach to capacity building. Tailored training in program budgeting and financial management and core competency areas such as health, education and the management of sports and cultural facilities will be necessary. In addition, training designed to help municipal mayors gain maximum benefit from the decentralization process should be considered. (See section on Training and Capacity Building.)
- ▶ Despite the lack of trained personnel and anxiety regarding compliance capacity, several of the critical institutional components necessary for decentralization to work have or are being put in place. These include four property tax pilot programs that could be rolled out during the next 14 months prior to the January 1, 2005 deadline, the existence of Citizen Information Centers in seven communities, the ongoing establishment of NGO Resource Centers and several Civic NGOs that will be critically important helping local municipalities improve effective communication with citizens.
- ▶ Local government officials differ on whether decentralization should be accelerated (a 1-3 year process) or attenuated over for example 15 years with the cascading of

responsibilities triggered by certification of competencies. If accelerated, decentralization will be more chaotic and inefficient, if phased slowly there is the persistent danger that forward momentum will evaporate. While the pace of decentralization is a GOM question that will be heavily influenced by the Law on Municipal Finance, a coordinated donor position on this matter will be influential. In that respect, a central theme of this assessment is that decentralization should be implemented on a “fast track”¹⁰ basis within a twelve to eighteen month period once the two critical statutes (Finance and Territorial Division) have been enacted. Approach to decentralization must be both phased to insure that responsibilities are co-terminus with capacity but fast enough to show results. Excessive preoccupation with e.g. financial skills may be counterproductive. Some degree of inefficiency can be tolerated for the sake of visible action.

B. CITIZENS MORE INVOLVED IN LOCAL GOVERNMENT DECISION MAKING

Both central and local governmental authorities express enthusiastic support for the concept of citizen participation and anecdotal observation suggests that the new Citizen Information Centers are being well used. Many mayors have discovered the political value of engaging citizens in decision making and the habit of citizen participation is increasingly evident in discussions of political process.

In the long run, the effectiveness and durability of local government structures will depend on the ability of citizens to articulate their needs in a manner and through forums that will convert these needs into responsive performance. While coherent legislation, courses in management and the provision of modern equipment are important attributes of trust will emerge only from the interaction between citizens and the officials they elect. While this may appear to be a simplistic, even condescending “finding”, it is an important beacon in the long term design of an effective local government strategy because it place emphasis on creating the bottom up demand for services as opposed to the top down supply of what an official believes to be the needs of his or her constituency.

C. STRONG MUNICIPAL ASSOCIATIONS

Emergence of Municipal Associations as key actors

- ▶ The Association of Municipal Mayors (ZELS) has become a positive factor in guiding and shaping a coherent approach to decentralization and as a conduit for communication between central and local authorities. ZELS has made significant progress over the past year and a half. Their advocacy efforts appear to be reasonably effective, their nine policy committees are developing coherent policy positions in critically important areas and internal management is being strengthened.
- ▶ Currently, ZELS performs an analytical function, an advocacy function and a training function. The concurrent management of these three responsibilities is appropriate for the

¹⁰ By “fast track” we mean on an accelerated basis by the GOM, and with a sense of urgency.

short term because of the imminence of decentralization and because other institutions are not in place. For the longer term, ZELS will need to deal with several institutional issues including financial sustainability and the establishment of a governance system that ensures that the organization can maintain objectivity while at the same time advocating for policy reforms that will ensure high quality local government.

- ▶ Most immediately, the phase out of the LGRP program which is scheduled to terminate in September, 2004, the unknown impact of the October 2004 elections and the continued and simultaneous need to upgrade systems, build staff capacity and identify a continuing flow of high quality leadership combine to threaten the sustainability of this still fragile but critically important institution. As USAID's local government strategy unfolds, it will be essential to give high priority to permanently rooting ZELS and associations like it in the Macedonian governmental/civil society landscape.

Shift in Strategic Focus

1. The Assessment Team concluded that the Mission should not undertake a major effort to re-fashion the local government strategic framework at this time.
2. However, the Team believes it is important that the Mission begin to identify those long term, over the horizon, factors that should influence and guide the program in order to soundly root local government reform in the political life of Macedonia and to insure that the reforms are durable and increasingly effective.
3. While, over simplified, the long term success of decentralization will depend on the interaction between two sets of complex variables: the performance of local government in the broadest sense; and the demands, expectations and satisfactions of citizens. This in turn will depend on:
 - ▶ The availability of adequate financial resources.
 - ▶ The capability of municipal government to deliver services and respond to citizen concerns.
 - ▶ The level of citizen trust in public institutions.
4. Despite the very best efforts of donors and competent local government officials, the decentralization process will be uneven with the possibility of temporary lapses in the quality and coverage of government services, erosion in staff morale as a consequence of the re-organization and in some cases, as a result of a deliberate decision to not absorb Ministry staff.
5. The overall posture of the donor community during this turbulent period will be influential in determining the durability of decentralization. While there is much that can be done in the 14 months prior to the actual transfer of responsibilities, once this process begins, attempts to insert stop-gap training or to upgrade skills on an emergency basis are likely to be unsuccessful. During the first few months following decentralization, there will be a grace period of public tolerance that can be strengthened through a positive

public relations campaign to broadcast the potential citizen benefits of decentralization. In addition, donors may wish to consider steps that would provide municipalities with quick access to “bricks and mortar” resources to demonstrate tangible benefits.

6. In this context, the Evolving Mission strategy in the 2004-2009 period should increasingly rest on five core themes:¹¹
 - ▶ Short-term maintenance of a dual strategy: policy reform at the top; and capacity building at the local level.
 - ▶ A shift in energy and momentum to the local level (Empowerment of mayors to encourage pro-active planning, preparation and political entrepreneurial skill.)
 - ▶ The critical importance of adequate local budgetary resources. (Both funds and the capacity to program resources wisely.)
 - ▶ Building an engaged, informed and supportive citizen base to ensure durability of decentralized functions.
 - ▶ Support for line ministries in the areas of decentralization policy and program implementation.

CONCLUSIONS

The following sets forth the primary conclusions that emerge from the previous discussion.

1. ***The immediate success of the effort to decentralize authority and responsibility to local government entities in Macedonia will depend primarily on the actions, attitudes and initiative of the Central Government.*** Despite anticipated passage of core legislation, there is sufficient continuing opposition to decentralization within the government to seriously impede and perhaps destroy the process. This opposition is made manifest in a confusing labyrinth of legislation, a general unwillingness to allocate sufficient human and financial resources to guarantee the independent viability of the newly empowered governments and a cautious proclivity to move as slowly and carefully as possible. It is exacerbated by the uncertainty of upcoming elections and the doubtful wisdom of enacting a statute that would consolidate municipalities, and undermine services to small poorly served areas. Many of these areas are characterized by significant ethnic tension. While local officials are by and large enthusiastic about the new responsibilities they will receive, they are concerned that they will have inadequate authority and financial resources and do not constitute an independent political force with sufficient power to pull decentralization down from the top. However, because Macedonia has an abiding tradition of responsive local government, a strong human resource base and core group of

¹¹ The time period is chosen because it corresponds approximately to the periodicity of the Mission’s Strategic Plan. The Assessment Team suggests that with respect to the local government related SO’s, the Mission undertake a strategic review toward the end of FY 2004. This review would presumably cover the period FY 2004 to FY 2009. Also this period was agreed as the proper time frame in the Team’s initial meeting with Mission staff.

talented and energetic local political leaders, decentralization will be successful if the GOM wholeheartedly decides to support it and to allocate sufficient resources and authority to make it work.

2. ***The long term success of decentralization will depend on the ability of local government to generate a sustained citizen demand for responsive and cost effective services and to translate this demand into sufficient political power to sustain and increase the flow of financial and human resource support from the Center.*** At the current time and despite sparks of interest and enthusiasm among some of the savvy local leaders, most of the energy and momentum for decentralization is coming from the top in the form of legislative action, imposed training programs and a variety of well-intended donor initiatives. This top-down approach to decentralization is likely to *lose its momentum* once requisite laws are passed and in the inevitable face of the confusion and occasional missteps that will accompany a transfer of power. In the long run, decentralization can only be sustained through the voices of citizens who demand effective government and the voices of local leaders who can advocate for and secure adequate authority and necessary support to respond to their constituents. While the long run vision of effective local government may be indistinct at this early point, some core attributes are clear. These include; the authority and desire to take initiative to address local problems; the ability to articulate needs from the local perspective and up through the political system; the ability to adjust and tailor central resources to local conditions; and, in general, the creation of a fabric of local government/citizen relations that constitutes a coherent center of political power.
3. ***It is essential that USAID maintain a strong program and a high profile during the preparatory phase of decentralization.*** The planning and preparatory phase prior to the actual devolution of authority is absolutely critical. If USAID is to maintain a substantive leadership role in its dialogue with the GOM and among donors in facilitating a rational decentralization process, it must engage in a “full court press” that integrates all appropriate and available resources. For the next 14 months, USAID must continue to operate aggressively at both the national and local level and must be very forward in encouraging Ministry and senior GOM officials to maintain momentum.¹²
4. ***USAID’s program design should evolve in relation to the stages of decentralization and be targeted to respond to primary needs at each stage.*** Over time, the decentralization effort should shift from the cascading of authority and responsibility to the building of capacity to the establishment of civil society institutions and civic organizations that will build and perpetuate the traditions and practices that will insure that decentralization is sustained. The creation of strong, supportive, independent civil structures, such as neighborhood organizations and broad based school boards, at the local level is the best insurance against recidivism.
5. ***USAID will need to harness and integrate as many resources as it can in support of decentralization during the next year to year and a half in order to maintain and***

¹² The “full court press” will require the coordinated efforts of USAID Mission Staff and Director, the Ambassador and diplomatic staff and USAID’s Implementing Partners/Contractors. The “full court press” will require coordination among the political and programmatic interventions of all the significant donors.

improve the likelihood of success. Currently, as a consequence of the LGRP, CSHI, the ISC civil society activity and the IREX media program, the Mission has established an extensive institutional “presence” throughout the country and a rich network of relations with senior decision makers. Because of the Mission’s healthy and open operating style, there has been a high degree of voluntary cooperation among these activities as well as cooperation with other donors and other USAID programs tangentially related to decentralization. Inevitably, however, scopes of work and contractual agreements establish boundaries that implementers need to carefully observe. In this context, the Mission can do a great deal to broaden these perimeters and to expand the domain of cooperative endeavor.

6. ***USAID can serve a very constructive role by questioning several underlying premises that are shaping decentralization.*** These include the concept of budgetary neutrality, the assumption that full and complete administrative capability must be in place before decentralization can occur and the wisdom of imposing restrictions on local government authorities with respect to the design and implementation of new revenue sources. In none of these instances is there an absolute right or wrong approach and in most cases there is a reasonable middle ground that constitutes a best case solution. However, there is a danger that a short term pre-occupation with efficiency, cost control and a “seamless” transition will undercut the devolution of meaningful authority to the local level.
7. ***Attempts at Donor coordination should continue and perhaps be strengthened.*** USAID deserves substantial credit for its efforts to encourage donor coordination through the provision of background information and preparation of matrices designed to spotlight areas of need and possible duplication. During the next year to year and a half, the complexity of coordination issues will expand immensely and the importance of a coordinated “voice” will increase.

RECOMMENDATIONS

The following section sets forth the recommendations of the Assessment Team. It is divided into four parts:

- ▶ General strategic recommendations
- ▶ Program recommendations pertinent to the next 14 months. (Phase I)
- ▶ Program recommendations pertinent to the following two years.(Phase II)
- ▶ Program recommendations for the long run.(Phase III)

GENERAL STRATEGIC RECOMMENDATIONS

1. ***Focus on Decentralization.*** The primary focus of IR 2.3, More Effective and Responsive and Accountable Local Government during the next 14 months should be placed on preparation, facilitation and acceleration of the decentralization process. Because of the critical importance of progress in this area to the future stability of Macedonia, the Assessment Team also recommends that decentralization be accorded overriding priority

for the entire SO 2.0 program for the next 14 months so that the various activities funded under this Program can be leveraged for maximum impact. *As the Assessment makes clear, the challenges facing decentralization are daunting and the risks of failure are quite real. A partial or hesitant approach to these difficulties would be a serious strategic mistake.*

2. ***Retain Strategic Framework until after 2004 elections.*** The Mission should retain the Strategic Framework established for IR 2.3, More Effective and Responsive and Accountable Local Government through CY 2004. This set of objectives is sufficiently focused and defined to accommodate the current and likely activities that will be funded during the next 14 months in support of decentralization. Toward the end of 2004 and in preparation for the actual process of decentralization, the Democracy and Governance Team should undertake a strategic review of the entire SO.
3. ***Retain current Measurement Plan.*** The Mission should not re-cast the Performance Measurement Plan for IR 2.3 at this time. The current measures are relevant to decentralization, a baseline of data has been established and the current situation is too uncertain to warrant a fundamental re-assessment of indicators. More specifically:
 - ▶ **Change in satisfaction with Local Government.** This is a direct, relevant and important long term measure of the anticipated benefits of decentralization. This data should continue to be collected, although great care must be taken to not over-emphasize the importance of periodic fluctuations. It is likely, for example, that following decentralization there will be a drop in satisfaction levels due to inflated expectations and a short term drop in government services as a result of difficulties faced during the transition.
 - ▶ **Trust in Local Government.** This is an important and long term measure of the anticipated benefits of decentralization and an indicator of civic stability. The data should continue to be collected with the obvious caveat that reliable “trust” indicators are difficult to obtain and may be influenced by transitory events of an emotional nature. In general, the concept of high and low trust societies is an important perspective to apply to transitional, potentially high conflict societies.
 - ▶ **Local Government expenditure as percentage of total government expenditures.** This is a direct and relevant measure of the transfer of funding authority under decentralization and an indirect measure of the commitment of the central government to the principle of decentralization. However, the trend-line may be misleading because a positive shift does not necessarily mean a net increase in the quality or level of services or an improvement in the responsiveness of local government.

While all of the indicators cited above are relevant to decentralization, because of the large number of exogenous variables that influence such things as “trust” or “satisfaction” they do not constitute a direct measure of the value and impact of USAID funded activities. However, since USAID is the lead donor in this area and because USAID funded programs are so extensive and operate throughout the country, the higher

level indicator of program progress can be used provided the data is interpreted in reference to other intervening variables.

4. ***Structure the Program around sequential phases.*** With respect to program planning, USAID needs to maintain programs at both the Municipal and Ministerial policy level during the five year period while at the same time shifting emphasis in a way that will insure that the momentum toward decentralization is maintained. This requires very careful targeting. Accordingly, for the next five years, the Program should be conceptually structured around sequential phases and topical priorities. The Assessment Team recommends the following straight-forward structure that corresponds to the logical stages of decentralization as discussed in Part B. These are:

- ▶ **Phase I: Planning.** Planning, preparing, designing and testing: from now until January 1, 2005.¹³
- ▶ **Phase II: Implementing.** Devolution of authority through passage of laws and implementing regulations, cascading of authority and responsibility, educating citizenry, providing training for local officials: from January 1, 2005 to approximately December 31, 2006.
- ▶ **Phase III: Sustaining.** Consolidating capacity and building citizen involvement: from January 1, 2007 through December 31, 2008.

These stages should constitute the basis for program planning and assistance should be targeted within these planning perimeters during the next five years. Actual project activity should be adjusted to on the ground conditions as they evolve.

5. ***Concentrate on three thematic priorities.*** The Local Government Reform program activity during at least the next three years and probably for the entire five year planning period should be driven by the following three thematic priorities:

- ▶ **Demand driven.** A gradual shift from a top down, supply driven approach to a bottom up demand driven approach.
- ▶ **Sustainable civil society.** An emphasis on building a durable, civic and community based institutional infrastructure that is funded by the community.
- ▶ **Civil service professionalism.** The development of a well trained, well motivated and fairly compensated professional staff of civil servants at the Municipal level that understand the service role of government and possess an ethic of honesty and high performance.

6. ***Adopt a preference for speed in preference to perfection.*** In its communications with government at all levels either directly or through project implementers, USAID should adopt a position in favor of accelerated decentralization. Specifically, USAID should

¹³ In addition, careful planning must be undertaken to support newly elected municipal leaders (Fall 2004) and be opportunistic about the opportunities decentralization presents between now and Jan-2005.

encourage GOM officials to adopt legislation as quickly as possible, to roll out on a pilot basis wherever feasible, and to delegate competencies on the basis of adequate rather than perfect capability.¹⁴

7. ***Support the preference for speed through convincing analysis.*** USAID should commission a study that examines the case for rapid decentralization. The Report should examine at least two other cases in other countries where decentralization was done quickly and enumerate the costs and benefits of this alternative approach. Drawing on experience in other countries it should: 1) identify new revenue generating techniques that will be available to municipalities within parameters of the soon to be enacted law on municipal financing; and 2) identify new revenue generating techniques that could be made available to the municipalities at some later point through modification or amendment to the law on municipal financing.
8. ***Integrate growing emphasis on civil society.*** Gradually align NGO, Civil Society, programs with the decentralization process in four broad areas and pursuant to following priority:
 - ▶ **Citizen education.** Consider an ISC funded sub-grant program that would support groups that educate and inform citizens regarding the role of government, citizen rights, and the principles of democracy. (Phase II and III)
 - ▶ **Association Building.** Support the establishment and maturation of professional associations related to the effective provision of urban services such as an Association or Urban Planners and Architects; an Association of Building Inspectors, etc. (Phase II and III)
 - ▶ **Service delivery.** Explore opportunities to support NGO capacity to provide services in conjunction with or as an alternative to local government. (However, great care must be taken to not expect too much of financially fragile organizations or to engage independent NGOs in contractual responsibilities that will erode their autonomy.) (Phase III)
 - ▶ **Advocacy and governmental accountability.** Begin to support responsible NGOs who advocate for special causes or promote an alternative perspective. If feasible, identify and support local NGOs whose actions can improve governmental accountability and transparency. (Phase III)
9. ***Capitalize on LGRP investment.*** USAID should identify key Macedonian LGRP staff that have the intellectual capital and experience to form a core team to implement the next stage of its local development efforts. USAID has made a very large investment in

¹⁴ The Assessment team has not attempted an item by item analysis of the timing of the decentralization process because of the large number of intervening variables. However, there is a pervasive view among those that were interviewed that the disincentives to decentralize will impede momentum and that the current schedule is not likely to be met. While this may not be the case, the schedule appears to be rather formulaic and is not geared to the particular problems facing individual programs and ministries. In general, the Team inclines toward an emphasis on rapidity and progress as opposed to perfection.

training and development of Macedonian staff and it should capitalize on this investment in the next phase of its municipal development effort. Depending on the scope of the next phase of the program the Assessment Team envisions that approximately six to twelve Macedonian staff might fall into this category. Early efforts to identify and retain this core team should be considered before economic risks push potential core staff to take other jobs.

SPECIFIC PHASE I RECOMMENDATIONS¹⁵

1. ***Sustain a seamless core of operations.*** For the next 14 months, USAID should sustain the core activities of the Local Government Reform Program and build on its nationwide “presence” and the comprehensive body of experience it has developed since 1999. *This period of intense preparatory work needs to be characterized by flexibility, adaptability and opportunism in order to seize advantages when they emerge.*
2. ***Continue to provide institutional support to ZELS and AFO and initiate modest support for MAKKOM.*** USAID should continue to provide the current high level of expert on-going technical assistance to ZELS and should continue to support its policy analysis and policy advocacy capabilities, *but in exchange for its support, it should expect a high level of performance.* The present subsidy level for ZELS is not sustainable, but this should not be a constraint to USAID during this critical period. ZELS has a serious free-rider problem that USAID should not subsidize. While maintaining very strong support for this maturing organization, USAID should cease staff and funding support for the ZELS EXPO; it is not a complex event to run and ZELS now has three years of experience. USAID should adopt a policy of reducing its subsidy to ZELS by the amount of unpaid dues. This should be done in a way that is designed to help ZELS mature and grow into a competent organization that can set expectations for its members (No Free Lunch) and help raise its expectations for its own performance.
3. ***Provide policy support to Ministries in drafting laws and regulations.*** USAID should support the continuation and expansion of a TA program that enlists top Ministry civil servants and their municipal peers in figuring out the detailed procedures for implementing decentralization of specific competencies. The LGRP already plans to establish a unit within the Ministry of Finance and is providing high-level analysis to the Ministry of Education. This initiative should be expanded to other ministries. Where feasible, this TA effort should emphasize the establishment of joint working groups that involve officials from local government. This approach, not only brings the local perspective to the policy table, it also establishes working relationships that can smooth the transition.
4. ***Design a Municipal Advisor technical assistance program.*** USAID should support the design of a program that would train and place municipal advisors in from 10 to 15 key

¹⁵ These recommendations are in approximate order of priority based on the preceding Assessment of issues and capacities. By “priority”, the Assessment Team means both the level of importance and the sequence of action. For example, building citizen understanding of the reciprocal relations between government officials and their constituents is probably the single most important building block of effective governance structures, but it is listed last under Phase I because other action items are of more immediate importance.

municipalities. These individuals should have strong managerial ability and a capacity to orchestrate and prioritize within a complex organizational structure. Cooperating municipalities should be asked to bear an initial portion of the cash cost. One scenario would be for USAID to fund two-thirds of the cash cost of the management advisor. If estimated annual salary is USD 6000 (including social benefit contributions), the USAID initial cost would be USD 4000, thus management advisors in ten municipalities would cost USD 40,000. The USAID portion would be reduced to one-third in the second year and zero in the third year. These Management advisors would serve as *an internal management change agent* advocating for improved budgeting, human resources, and financial management capabilities. The advisor would serve as the internal client for training and technical assistance resources offered to the city and determine how these should be utilized to buttress the City's own management development agenda. The appointment should be approved by the City Council and the person's skills should be in line with a standard job description included in a MOU with the City. *No appointment should be made until the USAID implementer approves that the candidate's skills are consistent with the job description.* Experience elsewhere has demonstrated that this helps buffer Mayors from pressures to hire political favorites. If successful, and crafted to fit the Macedonian context, the Management Advisor program can seed the development of a local public administration cadre in the country. This program can be a low cost, high impact initiative that places management change agents in Mayor's offices.

5. ***Design Quick Response Teams.*** USAID should support and fund the design of a structure of *Quick Response Teams* to assist municipalities during the decentralization process (Phase II above). This activity should be designed and staffed by the LGRP or its successor. It should be located within ZELS or possibly within the Ministry of Local Government if it becomes clear that the MOLG is adequately engaged in actively facilitating, rather than controlling, the operational aspects of decentralization. Teams should have a deep and comprehensive understanding of the statutory framework and constraints, civil service laws and regulations dealing with personnel re-assignment, the budget and finance laws and the revenue mechanisms available to local government as well as a good knowledge of the supporting resources available from donors and from within the GOM. They should be available to work directly with mayors and Council members on a direct, personal basis. Each Team should include an attorney, a personnel expert, a management expert and a financial expert. Where feasible, teams should include a member from the local community. Expertise of the type described will be in short supply as decentralization commences. Its absence can slow decentralization and the knowledge gained by the team(s) can inform the policy implementation process. In addition, information about successful problem resolution can be shared via ZELS dissemination vehicles.
6. ***Design a Mayoral Institute Leadership Program.*** USAID should support and fund the establishment of a Mayoral Leadership Development Program for Macedonian mayors. This program should have three sequential components including 1) leadership training for recently elected mayors including new mayors and re-elected mayors, 2) a workshop on municipal planning and development and 3) provision of tailored follow up assistance to help individual mayors formulate their own plan of action for their municipality, tailored to the special challenges that these communities will face during and shortly after decentralization. This program should give special emphasis to helping mayors

understand the decentralization *process*, their new roles and responsibilities under decentralization and the special challenges/opportunities they face during and shortly after decentralization because of governmental re-structuring. Follow on tailored consultancies should be provided by individuals who have served as mayors or have expertise in assisting political leaders manage effectively in dynamically changing circumstances. Advisory support should be available for a two year period following the initiating workshop. Advisors need not be U.S. expatriates and should have experience in socialist countries in transition.

7. ***Accelerate expansion of pilot projects.*** Pilot projects that demonstrate the potential for improved service, administration and revenue management with decentralized competencies should be expanded where feasible. The value of these pilot efforts provides lessons learned that can be applied but to train and fast-track the implementation process. Any prior experience in revenue collection for example is better than none at all. The current pilots in Urbanism and Property Tax collection are examples. They should be rolled out with USAID support and new pilot topics identified. *The pilots not only improve municipal management, they have the potential to inform policy development at the national level.*
8. ***Strengthen donor coordination through the establishment of a small supporting secretariat to function for 12 to 18 months.*** The Assessment Team believes that consideration should be given to the establishment of a small office charged with informational and programmatic coordination to function in conjunction with the Committee of Principles that operates at the Ambassadorial level. This unit would be primarily informational but proactive in its effort to identify opportunities for synergy and to gently engage the donor community in long term strategic thinking regarding the fundamental attributes of decentralization and the obstacles that will need to be overcome. It is specifically suggested that the Mission consider the services of a senior official, former Mission Director or Ambassador with the inter-personal and diplomatic skills to be influential without a great deal of formal authority.
9. ***Sponsor analytical studies on revenue adequacy in order to deepen understanding of feasible alternative funding mechanisms.*** The Mission should support a series of studies on municipal financing that would identify creative alternative revenue generating techniques that could be adopted within the political and organizational constraints applicable in Macedonia.
10. ***Develop models and templates.*** Develop a model municipal administrative structure(s) and processes that support the decentralized competencies *and provides for strong accountability to local political leadership and to citizens.*
11. ***Develop financial accountability strategies for Public Enterprise.*** Develop approaches that will solve the chronic problem of under funded Public Enterprises that currently provide most direct municipal services. This will require changes in law and regulation and increases in effective local management. The structural problems in this sector are well documented and will require changes in existing law to allow timely full cost recovery for services. Concurrently initiatives to make the decisions that shape PE

behavior transparent should be developed, building on the modest successes of the Citizen Advisory Board program.

12. ***Develop a citizen participation strategy that focuses on citizens.*** A significant effort has been placed on educating municipal officials on the political value of Citizen Participation and assisting in development of methods to *invite* citizens into the municipal processes. Now, with decentralization, an integral part of USAID's municipal development effort should be specifically targeted at educating and supporting municipal level NGO/NFO/civil society in how to advocate for their interests at the municipal level. Developing a program to support this in Phase I is necessary, so that the program will be ready for implementation in Phase II. USAID should capitalize on the thinking that NGO support organizations are currently doing on this topic.

PHASE II RECOMMENDATIONS

1. ***Continue policy support to ministries in drafting secondary legislative acts.***
2. ***Make a pro-active effort to more directly link capital fund projects to decentralization.*** USAID should consider earmarking a significant portion of its capital funds (CSHI) to support projects that can help demonstrate the benefits of decentralized competencies. A very significant portion of CSHI resources have already been allocated to municipal infrastructure e.g. school rehabilitation and window replacement, water systems, etc. According to the Civil Society Assessment completed in summer 2003, strong mayoral leadership characterized most of these projects. USAID should foster a similar approach by other donors who have capital funds. A major rationale for this approach is that discretionary local funds, especially for capital projects, will lag the announcement of decentralization significantly; targeted donor capital funds can help close the expectation gap and build confidence in local government capacity.
3. ***Activate Municipal Advisor Program***
4. ***Make a pro-active effort to more directly link NGO and civil society grant programs to support for decentralization and local government reform.*** Activities that might be supported include professional associations linked to local government, citizen civil education groups, in-school programs on civic education, advocacy groups who support local empowerment and the strengthening of NGOs that might eventually assist in the provision of municipal services.
5. ***Activate Quick Response Teams.***
6. ***Activate Mayoral Leadership Development Program.***
7. ***Engage in collaborative activities with the Media Support program.*** Work at the local level in order to increase the extent and quality of media attention to local government reform.
8. ***Implement the Citizen Participation Support Program.***

PHASE III RECOMMENDATIONS

1. ***Evaluate impact and utility of Mayoral Leadership Institute.*** Institutionalize the program as a continuing facility, perhaps independent or located within ZELS.
2. ***Evaluate impact and utility of Municipal Advisor Program.*** Expand if appropriate. Consider establishment of Municipal Advisors Association to emphasize the importance of this profession, create performance standards and lobby for professional municipal management. Consider using the shared funding technique to enable the development of other needed municipal capabilities.
3. ***Expand attendance at Mayoral Institute to include Council members.***
4. ***Gradually phase down work of Quick Response Team.***
5. ***Working with ZELS, develop a realistic funding diversification strategy and initiate a phase down of USAID support.***
6. ***Initiate pilot tests of NGO/Municipal service delivery arrangements.*** Consider starting in the areas of health, environmental protection and citizen education.
7. ***Continue to support training programs offered by ZELS,*** and/or by line ministries but convert emphasis to responding to locally articulated need.
8. ***Support development of professional associations related to the provision of municipal services.*** This can include small grants and technical assistance based on the model of AFO.
9. ***Expand support to NGO public education groups.***
10. ***Initiate support to NGO special purpose advocacy groups.***

